

A trade-in credit is available when the purchaser trades in tangible personal property to a retailer when that property is of like kind and character as that which is being sold. See 86 Ill. Adm. Code 130.425. (This is a GIL.)

August 10, 2006

Dear Xxxxx:

This letter is in response to your letter received in this office on July 31, 2006, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I would like to request information about the sales tax when trading in a non-tax piece of equipment for a taxable piece of equipment. If a customer buys a \$10,000 taxable item and trades in a \$5000 non-taxable item, does the customer pay sales tax on the \$10,000 or on the \$5000 difference between the two items? I would like to know the correct way to compute the sales tax in this case, please let me know as soon as possible. Thank you for your time.

#### **DEPARTMENT'S RESPONSE:**

Under Illinois law, a trade-in credit is available when the purchaser trades in tangible personal property of like kind and character as that which is being sold. See the enclosed copy of 86 Ill. Adm. Code 130.425. The phrase "like kind and character" includes, but is not limited to, the trading of any kind of motor vehicle on the purchase of any kind of motor vehicle, or the trading of any kind of farm implement on the purchase of any kind of farm implement, *while not including a kind of item which, if sold at retail by that retailer, would be exempt from Retailers' Occupation Tax and Use Tax as an isolated or occasional sale.* 86 Ill. Adm. Code 130.425(b), emphasis added.

In light of this rule, if a farm implement dealer sells a \$10,000 item and takes a trade-in of a \$5,000 item of like kind and character which that dealer is in the business of selling (i.e. the resale of

that item by that dealer would not qualify as an “isolated or occasional sale” for that dealer), then the dealer may deduct the amount of the trade-in when determining gross receipts on that sale. This is so regardless of whether the traded-in item, when re-sold, would be eligible for an exemption from sales tax as, for example, exempt farm machinery.

I hope this information is helpful. If you require additional information, please visit our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) or contact the Department’s Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Sincerely,

Samuel J. Moore  
Associate Counsel

SJM:msk  
Enc.